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SP-02 ICA-20 AID-05 NSC-05 TRSE-00 SS-15 STR-07

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AMCONSUL TRIESTE

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SUBJECT: INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT
POLICY

REF: STATE 095673

SUMMARY AND INTRODUCTION. EMBASSY WELCOMES OPPORTUNITY TO
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SUBMIT COMMENTS AND SUGGESTIONS FOR DEVELOPMENT OF A NATIONAL
EXPORT POLICY AND ON MEASURES TO PROMOTE EXPORTS. IN RESPONSE
TO PARA 2 OF REFTL, OUR SUBMISSION IS PRESENTED IN THREE PARTS,
A) CONSTRAINTS TO U.S. EXPORTS INTO LOCAL MARKET, B) POLICY
SUGGESTIONS AND C) EXPORT PROMOTION. VIEWS SET FORTH BELOW
ARE BASED ON EXPERIENCE OF THIS MISSION AS WELL AS ON
SUGGESTIONS FROM LOCAL AND AMERICAN BUSINESSMEN CONCERNED WITH

THIS ISSUE.
END SUMMARY.

1. CONSTRAINTS. U.S. EXPORT GROWTH IN ITALY IS CONSTRAINED PRIMARILY BY COMPETITION FROM EC COUNTRIES, WHICH HAVE THE ADVANTAGE OF GEOGRAPHIC PROXIMITY AND PARTICIPATION IN A FREE TRADE AREA. THIS COVERS SUCH FACTORS AS NON-TARIFF MEASURES COMMON TO THE EUROPEAN COMMUNITY (E.G., HEALTH AND FOOD STANDARDS), EASE OF SERVICING ACCOUNTS, COMMON TECHNICAL STANDARDS, AND TAXES THAT IMPACT ON U.S. PRODUCTS BECAUSE OF DIFFERING CRITERIA IN THE U.S. AS OPPOSED TO EUROPE. CLASSIC EXAMPLE OF LATTER IS AUTOS. ITALY REPRESENTS ANNUAL MARKET OF DOLS 2 BILLION FOR IMPORTED FOREIGN CARS, OF WHICH U.S. SHARE IS ONE-TENTH OF ONE PERCENT, COMPARED WITH FRENCH SHARE OF 40 PERCENT AND GERMAN SHARE 30 PERCENT. REASON: MOST POPULAR CAR IS 1,000 CC PISTON DISPLACEMENT BECAUSE OF LOWER CIRCULATION TAX, FUEL CONSUMPTION ETC. WHILE THIS IDENTIFIES PROBLEM, WE DO NOT SEE SOLUTION SINCE U.S. DOES NOT PRODUCE COMPETITIVE VEHICLE, BUT SERVES MARKET THROUGH PRODUCTION IN EC SUBSIDIARIES, E.G., GM'S OPEL.

2. THESE REASONS HAVE CONTRIBUTED TO DROP IN U.S. MARKET SHARE IN ITALY SINCE 1958, WHEN TREATY OF ROME SIGNED, FROM 16 PERCENT TO 7.8 PERCENT BY 1977. IN SAME PERIOD EC SHARE JUMPED FROM 29 PERCENT TO 44 PERCENT. MERELY TO MAINTAIN PRESENT SHARE, WE SHOULD CONCENTRATE EFFORTS ON HIGH TECHNOLOGY, HIGH-VALUE PRODUCTS. NASA PROGRAMS HAVE CONTRIBUTED
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MUCH TO OUR MICRO TECHNOLOGY SELLING SO WELL IN EUROPE. WHILE DEPARTMENT OF ENERGY IS SPENDING DLS 4.2 BILLION PER YEAR ON R&D, NOT ENOUGH IS BEING DONE TO SELL ENERGY TECHNOLOGIES ABROAD. ANOTHER APPROACH, ADMITTEDLY FORMIDABLE, IS TO ENCOURAGE RENEWED INVESTMENT IN MARKETS SUCH AS ITALY BECAUSE SUCH INVESTMENT LEADS TO U.S. SOURCING FOR CAPITAL EQUIPMENT. IN ADDITION, WE STAND TO GAIN TIN THE ITALIAN MARKETS FROM SUCCESSFUL OUTCOME ON TARIFF AND NONTARIFF NEGOTIATIONS IN MTN. WITHIN ITALY WE SHOULD PRESS FOR HARMONIZATION OF SAFETY STANDARDS, AND REASONABLE CUSTOMS TREATMENT--AREAS WHERE BUREAUCRATIC PROCEDURES INHIBIT ENTRY FROM TIME TO TIME.

3. POLICY. TURNING FROM FACTORS INHIBITING ACCESS TO FOREIGN MARKETS, THERE ARE NUMBER OF AREAS WHERE U.S. GOVERNMENT POLICIES AND ACTIONS PREVENT MAXIMIZING OUR EXPORT GROWTH. WHILE WE FULLY REALIZE THAT MANY FACTORS UNRELATED TO EXPORTS WENT INTO THE ADOPTION OF THESE POLICIES AND ACTIONS, THEIR EFFECT HAS BEEN TO RESTRAIN EXPORT GROWTH AND THUS A REVIEW SHOULD BE MADE TO ASCERTAIN WHETHER, AND IF SO TO WHAT EXTENT, THESE MEASURES SHOULD BE MODIFIED. THEY INCLUDE:
-- STRATEGIC EXPORT CONTROLS.
-- PROPOSAL TO TAX UNREMITTED FOREIGN EARNINGS OF U.S. SUBSI-

DIARIES OPERATING ABROAD.

- PROPOSAL TO DISCONTINUE DISC (BUSINESSMEN ASSERT VAT EXEMPTION IS LARGER EXPORT INCENTIVE THAN DISC -- DISC OFFSETS PART OF VAT REFUNDS).
- UNCERTAINTY IN TAX TREATMENT OF FOREIGN SOURCE INCOME.
- MORE STRINGENT ENVIRONMENTAL AND SAFETY CONTROLS THAN OTHER COUNTRIES.
- U.S. ANTI-TRUST LAWS, WHICH PRECLUDE INTER ALIA U.S. COMPANIES FROM COMPETING UNDER CERTAIN JOINT ARRANGEMENTS FOR MAJOR PROJECTS AS FOREIGN COMPETITORS DO.
- CERTAIN EXIMBANK PLICIES, E.G. FINANCING LIMITATIONS AND HUMAN RIGHTS TEST.

4. PROMOTION.

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A. IT IS TOO EASY TO LAY BLAME ON U.S. BUSINESSMEN FOR BEING UNINTERESTED IN AGGRESSIVELY PROMOTING EXPORTS. OUR OWN GOVERNMENT HAS NOT BEEN UNANIMOUS ON VALUE OF EXPORT PROMOTION, WITNESS PERIODIC QUESTIONING EXPORT PROGRAM BY OBM. WHILE U.S. GOVERNMENT TRADE PROMOTION EFFORTS DO NOT LEND THEMSELVES TO PRECISE EVALUATION BY COST/BENEFIT RATIOS, WE HOLD THE VIEW THAT AN EFFECTIVE EXPORT PROMOTION PROGRAM IS BOTH COST-EFFECTIVE AND NECESSARY BECAUSE NEITHER NATURAL WORKINGS OF THE MARKET NOR PRIVATE SECTOR PROMOTION CAN DO THE JOB ALONE. GOVERNMENT ASSISTANCE IS NEEDED TO OVERCOME THE MANY IMPEDIMENTS TO EXPORTING E.G., NEGATIVE ATTITUDES, LACK OF MARKET INFORMATION --

A FACT LONG REALIZED BY COMPETING NATIONS.

B. ANOTHER FUNDAMENTAL WORTH NOTING BY EXPORT TASK FORCE IS THAT EXPORT PROMOTION ALONE SHOULD NOT BE EXPECTED TO MAKE DRAMATIC CHANGES IN OUR TRADE DEFICIT IN THE SHORT TERM. PROMOTION PROGRAMS ARE PERFORCE DESIGNED TO BROADEN THE U.S. EXPORT SECTOR AT HOME AND TO INCREASE REPRESENTATION ABROAD, WHICH TAKES TIME TO TRANSLATE INTO VOLUME SALES. THE SHIBBOLETH THAT ONLY 8-9 PERCENT OF U.S. FIRMS ARE ENGAGED IN EXPORTS, AND THEREFORE THAT THE ANSWER LIES IN GETTING NEW TO MARKET (NTM) FIRMS INTO THEEXPORT TRADE, IS OVERSTATED IN TERMS OF QUICK RETURN. STUDIES SHOW THAT IT TAKES ABOUT 3 YEARS FOR A NTM FIRM TO BREAK EVEN IN A FOREIGN MARKET, AND EXPORT SALES DURING THIS PERIOD ARE GENERALLY LOW. WHILE WE AGREE THAT STIMULATING ADDITIONAL U.S. COMPANIES TO EXPORT IS ESSENTIAL TO ANY EXPORT PROGRAM, WE SHOULD LOOK TO THIS EFFORT AS A LONG-TERM, CONTINUING EXERCISE.

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C. IN THE SHORT TERM, WE SUGGEST THAT LARGE COMPANIES WILL PROVIDE THE MAJOR POTENTIAL VOLUME. THE FACT THAT LARGE FIRMS AND MULTINATIONALS ACCOUNT FOR SO MUCH OF OUR EXPORT VOLUME IS NOT OUT OF STEP WITH INTERNATIONAL EXPERIENCE. ACCORDING TO RECENT SURVEYS, IN ITALY, 500 COMPANIES ACCOUNT FOR 80 PERCENT OF EXPORTS BY VALUE, AND IN FRANCE, SLIGHTLY OVER 100 FIRMS ACCOUNT FOR 50 PERCENT OF FRENCH EXPORTS. THIS SUGGESTS THAT WE HAVE A TWO-PRONGED EXPORT STRATEGY,
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ONE FOR LARGE FIRMS AND ONE FOR MEDIUM/SMALL-SIZED NTM COMPANIES.

D. FOR LARGE COMPANIES ALREADY IN EXPORT, BEST RESULTS SHOULD

BE ACIEVED BY CREATING BETTER ENVIRONMENT FOR EXPORT, BOTH AT HOME AND ABROAD. THIS MEANS EMPHASIS ON POLICY SIDE AND TAKING ACTIONS ON DOMESTIC OBSTACLES SET FORTH IN PARA 3 ABOVE, AS WELL AS ON TRADE INHIBITING FACTORS IN OVERSEAS MARKET PLACE.

E. IT IS THE MEDIUM-TO-SMALL NTM SECTOR, WHERE PROMOTIONAL ASSISTANCE IS MOT NEEDED. USDOC EXPORT PROMOTION PROGRAMS ALREADY FAVOR THIS GROUP. WHILE WE DO NOT INTEND TO RE-HAS "INPLACE" PROGRAMS, WHICH WE FIND VALID FOR THE DIFFERENT PURPOSES INTENDED, WE OFFER OUR OPINION ON SOME LEADING ONES, AS FOLLOWS:

- TRADE CENTERS: A PROVEN, EXCELLENT VEHICLE FOR INTRODUCING NEW U.S. COMPANIES AND PRODUCTS INTO EXPORT MARKETS. BELIEVE NUMBER OF CENTERS IN DEVELOPED COUNTRIES IS AT MAXIMUM, CONSIDERING CAPACITY OF WASHINGTON AND U.S. INDUSTRY TO BACKSTOP PROMOTIONS. SUGGEST TRADE DEVELOPMENT CENTERS IN LARGE LDC MARKETS SUCH AS NIGERIA.
- TRADE FAIRS: USG PARTICIPATION IN INTERNATIONAL FAIRS SHOULD BE INCREASED, ESPECIALLY IN LDS'S. SUGGEST STUDY OF BRITISH COST-SHARING METHOD.
- TECHNICAL SEMINARS: URGE FAR GREATER EFFORT AND RESOURCES FOR THIS PROGRAM, WHICH FALLS IN LIF WITH OUR RECOMMENDATION TO PROMOTE HIGH TECHNOLOGY, "NEXT GENERATION" PRODUCTS E.G., SOLAR ENERGY.
- MAJOR PROJECTS: A HIGH PAY-OFF PROGRAM THAT MERITS MORE RE-SOURCES, CLOSER LIAISON WITH BANKING SECTOR.
- FOREIGN BUYER PROGRAM: EXCELLENT PROGRAM THAT DESERVES EXPANSION TO MORE U.S. FAIRS. COMMERCIAL ESCORT OFFICER FROM UNCLASSIFIED

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LOCAL POST SUGGESTED WHERE MAJOR EFFORT MERITS EXPENDITURE OF FUNDS.

- IN STORE PROMOTIONS: NOT DOING WELL IN ITALY, AS IS CASE WITH CONSUMER GOODS, WITH FEW EXCEPTIONS. THIS SUGGESTS BASIC STUDY OF CONSUMER GOODS SECTORS TO ASCERTAIN OUR SHORTOCINGS.
- TRADE OPPORTUNITY PROGRAM (TOP): NEEDS TO BE REFINED IN REAGRD TO SPECIFICITY OF PRODUCT MATCH TO CUSTOMER, SLECTI-VITY AND FOLLOW-UP.
- MARKET RESEARCH: RE-INTRODUCE WIDER USE OF SHORT MARKET SURVEYS FOR SPECIAL MARKETING SITUATIONS.

F. SUGGESTIONS:

- ADVISORY SERVICE: SUGGEST CREATING OFFICE OR ASSIGNING INDIVIDUAL IN USDOC AND SELECTED DISTRICT OFFICERS TO PROVIDE MINIMAL LEGAL AND PROCEDURAL ADVICE TO BUSINESSMEN ON MATTERS SUCH AS HOW TO DRAW UP LICENSING AGREEMENT AND JOINT VENTURES. BY THIS WE MEAN PROFESSIONAL ADVICE, NOT JUST PAMPHLETS.

WE FIND NTM FIRMS AT A LOSS WHEN THEY ARRIVE.

-- U.S. CHAMBERS OF COMMERCE. LAUNCH CAMPAIGN TO ENLIST PARTICIPATION IN EXPORT EXPANSION PROGRAM BY LOCAL CHAMBERS AT GRASS ROOTS. STUDY EUROPEAN SYSTEMS OF GOVERNMENT-CHAMBER COOPERATION AND SUBSIDIES.

-- THIRD COUNTRY PROJECTS: THERE IS LARGE POTENTIAL IN PROMOTING ARRANGEMENTS INVOLVING US-HOST COUNTRY JOINT EFFORT OR VENTURE ON MAJOR PROJECTS IN THIRD COUNTRIES, E.G., MIDDLE EAST. THIS CAN BE IN FORM OF JOINT BID OR SUB-CONTRACT. MAIN OBJECTIVE IS TO MATCH PARTNERS.

-- FOLLOW-UP SERVICE. MANY NEW AGENCY ARRANGEMENTS WOULD BE SAVED THOUGH TIMELY FOLLOW-UP, TO IRON OUT DIFFERENCES BETWEEN U.S. PRINCIPAL AND NEW OVERSEAS REP. MORE PERSONNEL RE-SOURCES WOULD BE NEEDED TO CARRY OUT THIS PROGRAM.

-- NATIONAL ASSOCIATION OF MANUFACTURERS: MAKE NAM MORE EXPORT-MINDED BY ESTABLISHING CLOSER LIAISON WITH USDOC PROGRAMS. ARRANGE BRIEFING AT NAM FOR ALL FSO'S GOING ON COMMERCIAL ASSIGNMENTS.

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-- ORGANIZATIONAL ISSUE: ON ASSUMPTION U.S. GOVERNMENT SHOULD BE OPEN-MINDED ABOUT WHETHER PRESENT ORGANIZATIONAL SET-UP IS MOST EFFECTIVE FOR TRADE PROMOTIONAL PURPOSES, SUGGEST RELOOK AT OTHER GOVERNMENT ORGANIZATIONS, SUCH AS THE JAPANESE JETRO ORGANIZATION. THERE MIGHT BE PLACE FOR SEMI-OFFICIAL TRADE PROMOTIONAL SERVICE UNDER PRESENT CIRCUMSTANCES.

5. RESOURCES. PRESENT RESOURCES PERMIT ONLY MINIMAL TIME FOR INITIATIVE WORK AND OUTSIDE CALLS. A MEDICUM OF INCREASED PERSONNEL, SAY 10 PERCENT, WOULD ALLOW MORE TIME FOR MAJOR PROJECTS, FOLLOW-UP ON NEW AGENCIES, TRADE OPPORTUNITIES. MOREOVER, IT IS ESSENTIAL TO MAINTAIN BALANCE BETWEEN EXPANDING WASHINGTON-GENERATED ACTIVITIES AND FOREIGN SERVICE DELIVERY END. WE SUGGEST THAT SUBSTANTIAL PERSON-HOURS COULD BE RECOUPED BY RECOGNIZING THAT COMMERCIAL ACTIVITIES CARRIED OUT BY GOVERNMENT PERSONNEL ARE NOT PRECISELY MEASURABLE AGAINST GIVEN OBJECTIVES, SINCE GOVERNMENT DOES NOT CONTROL THE FINAL DISPOSITION OF SUCH ACTIVITIES, NOR DOES IT HAVE AUTHORITY TO FORCE INVESTMENTS OR TO NEGOTIATE EXPORT CONTRACTS. HENCE, WE QUESTION WHETHER ATTEMPTS TO FINE-TUNE RESOURCES AGAINST OBJECTIVES UNDER PRESENT CCP IS COST-EFFECTIVE. WE SUGGEST LOOK AT AGRICULTURE'S COUNTRY MARKETING PLAN, WHICH ACCOMPLISHES PURPOSE SIMILAR TO CCP WITHOUT SUCH BRUDENSOME ADMINISTRATIVE LOAD. GARDNER

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